Prescient
CHINA

PRESCIENT CHINA QUARTERLY COMMENTARY

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TIAN PAN

Head of Strategy
Prescient China
BBusSci (UCT), FIA, CERA

WHICH CHINA ARE YOU INVESTING IN?

In the much-anticipated state visit by President Trump to Beijing finally took place against the backdrop of ongoing turmoil in the Middle East. Contrary to the optimistic speculation and news headlines preceding the trip, the visit yielded few substantive outcomes. Encouragingly, bilateral relations continue to improve and stabilise. From a financial-market return perspective, however, there was relatively little to complain about during the second quarter of 2026.

The quarter ending 30 June 2026 was generally positive for Chinese financial markets, although the divergence between onshore A-shares and the offshore Hong Kong market continued at a record pace. The onshore benchmark CSI 300 Total Return Index delivered a US dollar return of 14.68% for the quarter, while its offshore counterpart, the MSCI China Total Return Index, recorded another negative quarter, declining by 6.63% in US dollar terms. Year to date, the return gap between the two benchmark indices has widened to almost 27 percentage points, the largest divergence observed in more than a decade.

Our flagship Prescient China Balanced Fund returned 9.63% net of fees in US dollar terms during the quarter, benefiting from our strategic overweight towards onshore A-shares. Year to date, the Fund has significantly outperformed the MSCI China Total Return Index, which declined by 14.97% in US dollar terms over the same period. We continue to monitor market developments closely, particularly in the offshore Hong Kong market, where valuations are once again becoming increasingly attractive. Our approach remains unchanged: maintaining a disciplined focus on risk while seeking to generate both relative and absolute returns across multiple investment cycles.

STABILITY THE FOCUS

President Trump made his long-anticipated visit to Beijing in May, at a time when the war in Iran appeared to be stabilising. Expectations were high, with media headlines suggesting the prospect of landmark breakthroughs in bilateral relations and the reversal of tariffs imposed since Trump's first presidential term.

Our expectations were more measured. Based on the limited detail contained in official communications and announcements ahead of the state visit, there was little indication that any significant agreements had been reached behind closed doors beforehand, unusual for such a high-profile visit by a sitting US president. The vague post-visit announcements, which lacked substantive detail, appeared to confirm our suspicions.

For those who followed the lead-up to President Trump's visit, two points were clear:

- China has faced, and continues to face, extensive US sanctions, particularly in areas where the consequences for the US economy are relatively limited. There was little expectation that Washington would lift technology restrictions on Chinese companies such as Huawei or SMIC. As a result, China had relatively little to request that the US appeared willing to offer, making the summit more likely to serve as a diplomatic and publicity event than to produce substantive outcomes.
- Conversely, President Trump sought considerably more from Beijing. Any economic gains secured through trade agreements with China would provide a welcome boost for the Republican Party ahead of the US mid-term elections later this year. Commitments to purchase US beef, soya beans and aircraft could all have been presented as significant economic achievements by the Trump administration.

President Trump referred to substantial Chinese purchases of US agricultural products, but these were not confirmed by the Chinese side, and no specific figures were provided. Similarly, the rumoured order for 500 Boeing aircraft was reduced to a vague reference to 200 aircraft, without details regarding models or delivery timelines. Even the easing of export controls on Nvidia's second-most advanced chips generated little enthusiasm, given the apparent lack of demand from Chinese buyers. Why was there such a lack of specificity? Our view is that the two sides remained misaligned over what the US was prepared to offer China in exchange for sizeable purchase commitments.

Underwhelming as the immediate announcements may have been, the visit was not entirely without merit. Only 12 months earlier, the world was still absorbing the shock of President Trump's "Liberation Day" tariffs, while China-US trade relations were entering their most confrontational phase and bilateral tariffs were rapidly climbing into triple digits. Against this backdrop, the fact that the Chinese and US presidents met in person was, in itself, a meaningful positive development. Although "Liberation Day" may now feel like a distant memory, the visit provides some reassurance that similarly disruptive measures against Chinese goods are unlikely in the foreseeable future.

Further positive developments followed. In late May, the US reportedly "paused" US$14 billion of arms sales to Taiwan, citing the war in Iran, while China committed to US$17 billion of agricultural purchases during the same month. This was followed by an acceleration in Chinese purchases of US soya beans in early July.

Those familiar with conducting business in China might also suspect that Beijing played an active role behind the scenes in facilitating the Memorandum of Understanding (MOU) signed by the US and Iran in June, which led to a temporary ceasefire. Although China's precise involvement remains unclear, the use of an MOU as a non-binding framework for establishing common ground is a familiar feature of both Chinese diplomacy and commercial dealings with Chinese firms.

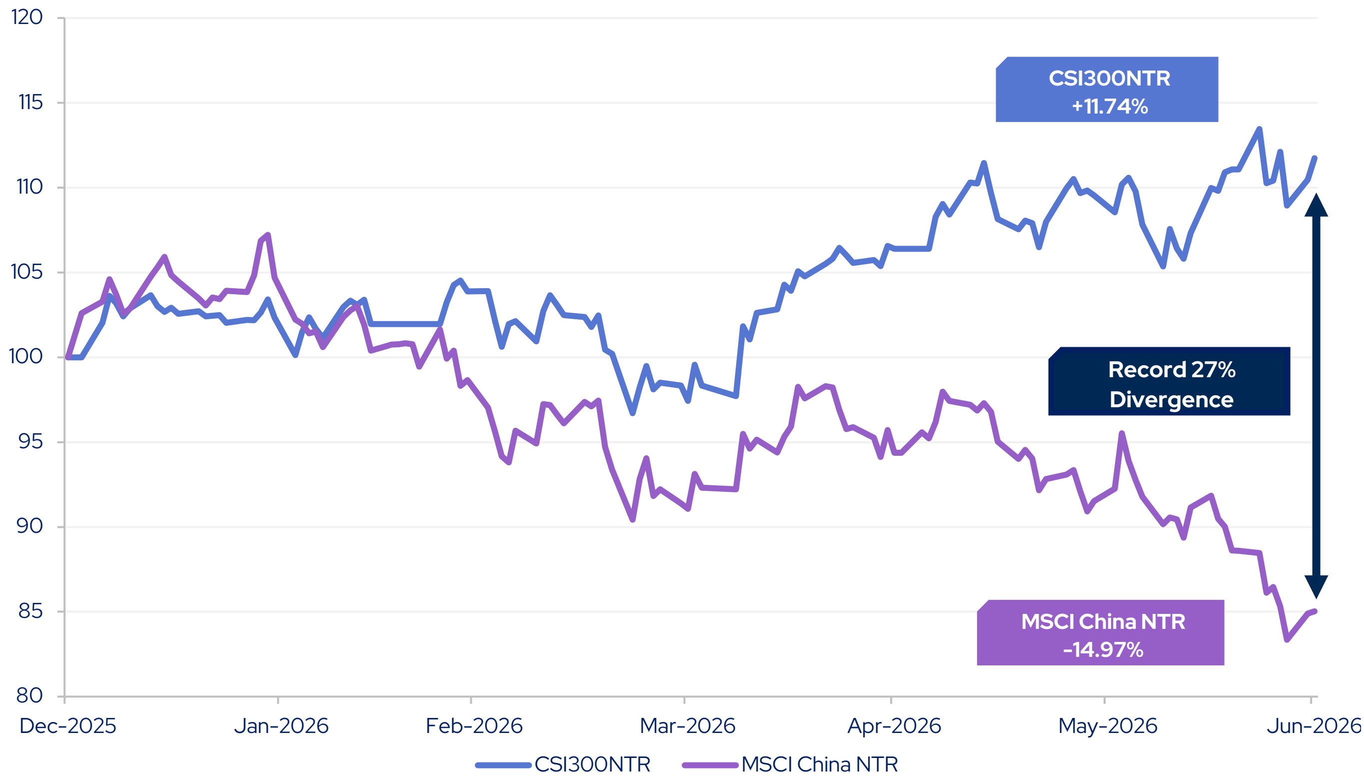
Overall, greater stability in China-US relations and hopefully in the global economy, appears to be an increasingly important priority for the world's two largest powers.

TWO CHINAS, TWO REALITIES

While China and the US each face their own distinct challenges and economic realities, investors' experiences of "China" in 2026 have also varied significantly depending on their chosen benchmark. For several years, we have sought to educate our institutional and wealth management clients about the different "Chinas" represented across financial markets.

In 2026, the divergence between these markets has reached record levels. One is the offshore market in Hong Kong, broadly represented by the MSCI China Index and most commonly referenced by global investors. The other is the onshore A-share market, comprising the two principal exchanges in Shanghai and Shenzhen and broadly represented by the CSI 300 Index, where global investor participation remains relatively limited.

Figure 1: MSCI China vs CSI300 - 2026 YTD in USD



Sources: Prescient, Bloomberg (as at 30 June 2025)

Since the war in Iran began in late February, the MSCI China and CSI 300 Total Return Indices have experienced their most significant divergence in more than a decade. By the end of June, the MSCI China Total Return Index had declined by nearly 15% in US dollar terms, while the CSI 300 Total Return Index had gained almost 12%, a six-month performance gap of approximately 27 percentage points.

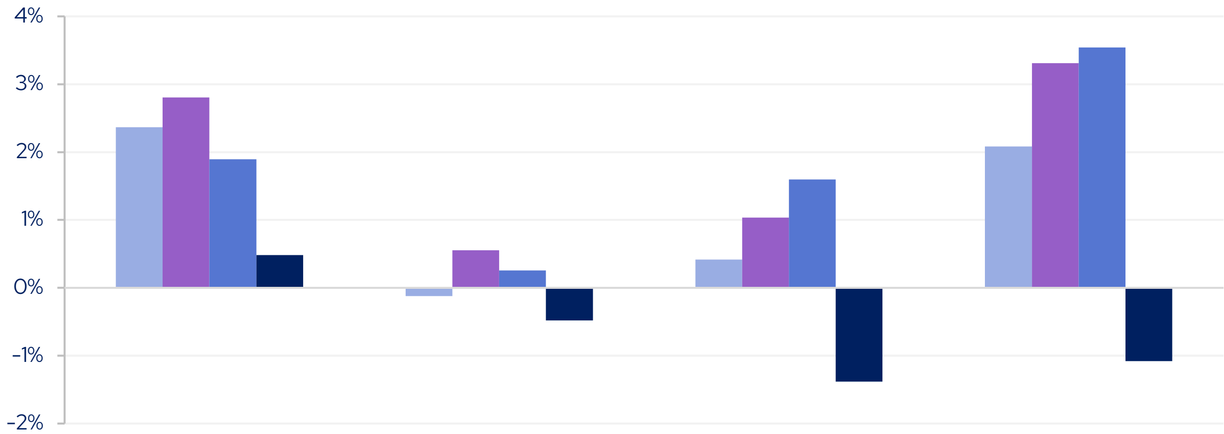
We therefore maintain that investors must fully understand "which China" they are invested in. While we do not advocate choosing one market over the other, the ability to allocate dynamically between onshore and offshore Chinese equities will remain critical to navigating what is, for many investors, an unfamiliar and volatile market.

Over the longer term, our internal analysis indicates that the MSCI China Index has exhibited a significantly higher correlation with global equity markets, often approaching twice the level observed for the onshore CSI 300 Index. The war in Iran, together with heightened volatility in oil and gold prices, has clearly illustrated these differences in 2026. We remain focused on navigating them through dynamic allocation across onshore and offshore markets within our China strategies.

NEW SAFE HAVEN

Another notable divergence is the Chinese yuan's growing role as a safe-haven currency during periods of heightened global volatility. With the exception of May, when expectations of a durable ceasefire agreement between the US and Iran were elevated, the Chinese yuan has clearly outperformed several of the world's traditional hard currencies. Sterling, the Euro and the Japanese Yen all depreciated significantly against the US dollar (2.1%-3.5%), while the Chinese yuan had appreciated by more than 1% by the end of June.

Figure 2: GBP vs EUR vs CNY vs JPY - since Iran War



	31 03 2026	30 04 2026	31 05 2026	30 06 2026
USDGBP	2.36%	-0.12%	0.42%	2.08%
USDEUR	2.80%	0.55%	1.04%	3.31%
USDJPY	1.89%	0.26%	1.59%	3.54%
USDCNY	0.48%	-0.48%	-1.38%	-1.08%

Sources: Prescient, Bloomberg (as at 30 June 2026)

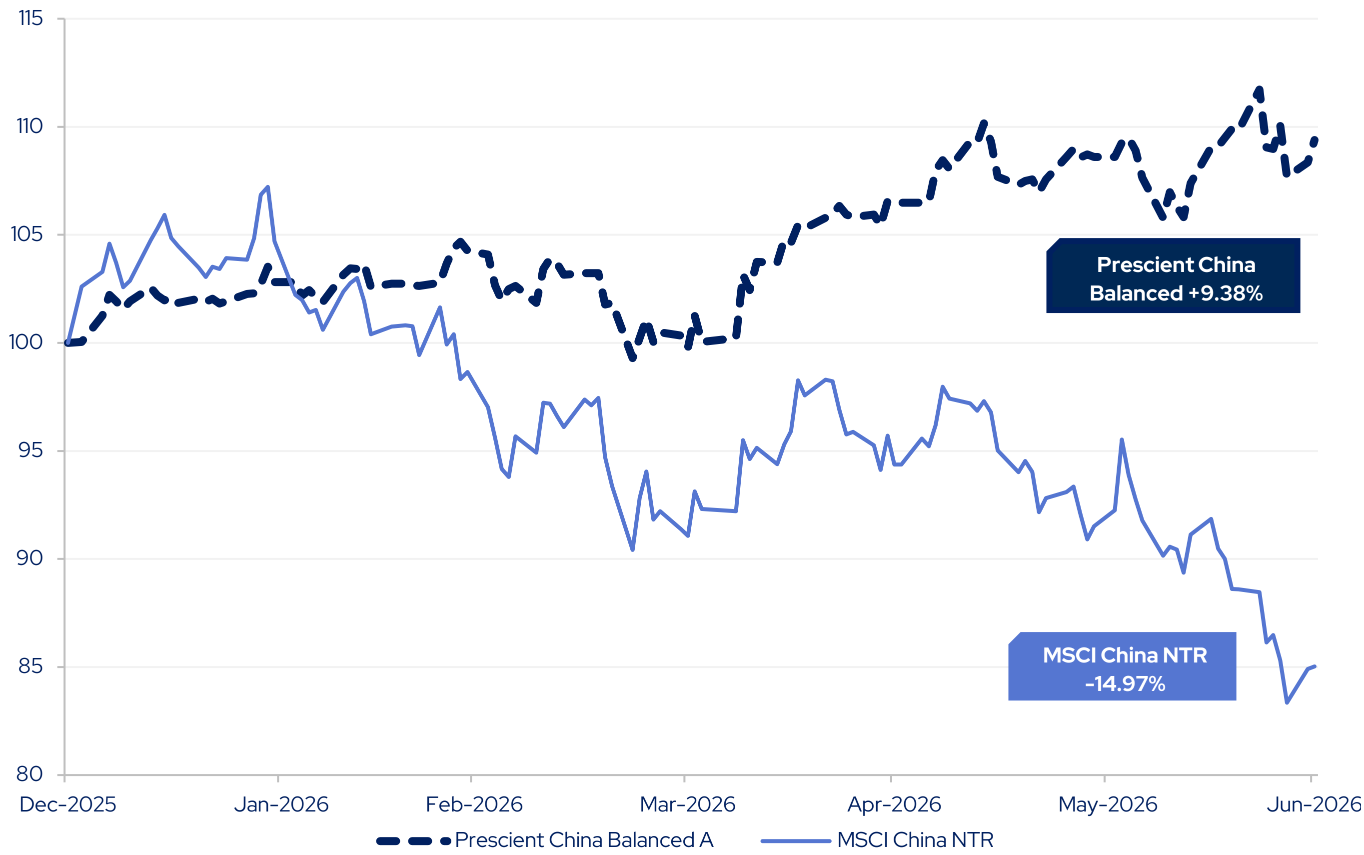
The People's Bank of China's (PBoC) actions during the quarter suggest that the central bank was focused on moderating the Chinese yuan's appreciation, most likely to preserve exchange-rate stability amid strong demand for the currency. On several occasions, the PBoC set its daily reference rate at a weaker level than market expectations, while Chinese commercial banks were permitted to raise US dollar deposit rates, potentially to discourage the conversion of US dollar deposits into Chinese yuan.

These developments are consistent with our view that the Chinese economy and its financial markets are likely to remain among the most resilient should current geopolitical shocks persist or intensify. Nevertheless, given the prevailing global uncertainty, risk and volatility management remain central to our investment strategies.

PRESCIENT POSITIONING & PERFORMANCE

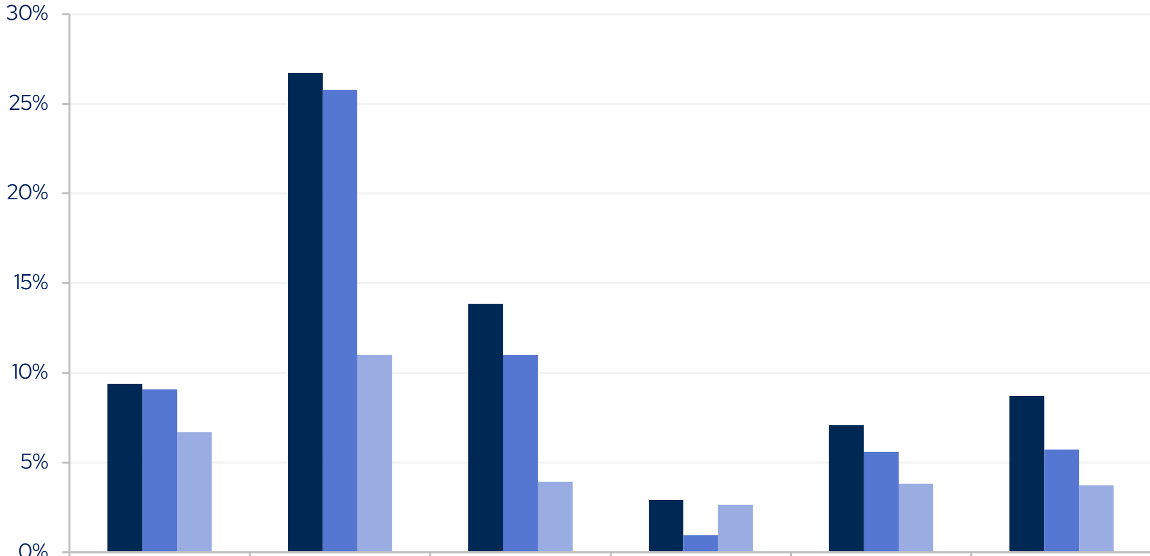
Our flagship, all-in-one flexible China strategy, the Prescient China Balanced Fund, continued to deliver strong performance during the second quarter of 2026. The Fund preserved investors' capital during the initial shock of the Iran war in the first quarter, before generating a strong absolute return of 9.65% in US dollar terms during the second quarter. Year to date, the strategy has broadly kept pace with the onshore CSI 300 Total Return Index and outperformed the MSCI China Total Return Index by 24.35 percentage points in US dollar terms, as shown in Figure 3 below:

Figure 3: Prescient China Balanced Fund 2026 YTD – USD net (Illustrative Performance)



Sources: Prescient, Bloomberg (as at 30 June 2025)

Figure 4: Prescient China Balanced Fund – USD A Class Net



	YTD	1Y	3Y	5Y	10Y	Since inception (p.a.)
Fund	9.38%	26.73%	13.86%	2.92%	7.09%	8.70%
Composite 65/35	9.08%	25.79%	11.00%	0.95%	5.59%	5.73%
CPI+3	6.70%	11.00%	3.93%	2.64%	3.82%	3.74%

Source: Prescient, Bloomberg – 30 June 2025, Composite: 65% CSI300 and 35% CSI1Bond

Returns longer than one year have been annualised.

	Fund	Benchmark
Highest rolling 1 year	116.81	17.08
Lowest rolling 1 year	-26.97	-7.82

After fully exiting our exposure to the Hong Kong-listed Chinese technology sector in early January, we began cautiously rebuilding our Hong Kong exposure towards the end of the second quarter, primarily through low-cost option structures. This reflected increasingly attractive valuations in Hong Kong, both in absolute terms and relative to onshore A-shares, following the recent global sell-off.

We remain overweight onshore A-shares and expect this allocation to provide relative stability within the equity component of the portfolio, irrespective of broader geopolitical developments. As at July 2026, the Prescient China Balanced strategy's overall equity exposure stands at approximately 70%. Given the potential for further market volatility, we continue to apply a dynamic approach to asset allocation and portfolio protection.

THE TOUGH ROAD AHEAD

Recent economic data from China continue to present a mixed picture. Real GDP growth came in slightly below expectations at 4.3% year on year in the second quarter of 2026, while retail sales unexpectedly increased by 1.0% year on year in June, following a contraction in May. Despite this positive surprise, the broader downward trend in Chinese household consumption remains difficult to ignore.

Many commentators in the West have called for fiscal stimulus to support consumption. However, we believe that some of these proposals underestimate the realities on the ground. Chinese households collectively hold the world's largest pool of savings, and providing additional financial support offers no guarantee that the proceeds will be spent rather than deposited into another savings account. The greater challenge lies in designing policies that strengthen consumers' confidence in their future financial security, thereby reducing the perceived need to accumulate precautionary savings indefinitely.

Consumption subsidies covering cars, electronics, household appliances, groceries and dining out are all providing support. However, we believe the key policy developments to monitor include:

- The evolution of policy across the artificial intelligence sector, particularly its potential effects on youth unemployment, broader employment levels and wage growth.
- Measures aimed at stabilising local government finances in an environment where authorities can no longer rely on an apparently endless stream of land-sale revenues from property developers.

The road ahead will be challenging, given the combination of domestic and global headwinds. Nevertheless, if local government finances can be stabilised and the small and medium-sized enterprise (SME) sector is supported in flourishing once again, we believe the economy could be positioned for several more decades of solid growth. In the meantime, extending visa-free access to additional countries, including South Africa, should provide some support to domestic retail activity, and every contribution matters in the current environment.

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